



OFFICE OF THE
PARLIAMENTARY
BUDGET OFFICER
BUREAU DU DIRECTEUR
PARLEMENTAIRE DU
BUDGET

CANADA

**The Government's
Expenditure Plan
and Main Estimates
for 2017-18**

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The mandate of the Parliamentary Budget Officer (PBO) is to provide independent analysis to Parliament on the state of the nation's finances, the Government's estimates and trends in the Canadian economy; and, upon request from a committee or parliamentarian, to estimate the financial cost of any proposal for matters over which Parliament has jurisdiction.

This note examines the federal government's Expenditure Plan and Main Estimates for 2017-18, which supports the first two appropriation bills that will seek Parliament's approval for \$102 billion.

This report was prepared by the staff of the Parliamentary Budget Officer. Jason Jacques and Alex Smith wrote the report. Mostafa Askari provided comments. Nancy Beauchamp and Jocelyne Scrim assisted with the preparation of the report for publication. Please contact pbo-dpb@parl.gc.ca for further information.

Jean-Denis Fréchette
Parliamentary Budget Officer

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Executive Summary

The Main Estimates support Parliament's consideration of the interim supply bill, which authorizes funding for the first three months of the fiscal year, and the full supply bill, which is the amount laid out in the Main Estimates, less interim supply.

The Government's Expenditure Plan and Main Estimates for 2017-18 outline \$257.9 billion in total budgetary spending authorities, which represents an increase of approximately \$7.8 billion (+3.1 percent) in comparison to the total budgetary authorities outlined in the Main Estimates 2016-17, and an increase of \$751 million when compared to Estimates to date in 2016-17. Of this amount, \$102.1 billion relates to authorities to be voted by Parliament.

Statutory authorities are forecast to be \$155.8 billion, which is an increase of \$1.8 billion (+1.2 percent) compared to total estimated statutory spending in 2016-17. In 2017-18, the Government expects Canada Health Transfer payments to grow by \$1.1 billion (+3.0 percent) and exceed \$37.1 billion. Federal spending on Elderly Benefits will rise by \$2.8 billion to \$51.2 billion in 2017-18 (+5.8 percent).

Ensuring accountability for federal spending and monitoring the implementation of the Government's fiscal plan involve following federal spending from announcement in the Budget, to parliamentary approval through the Estimates, and actual spending as reported in the Public Accounts. However, the way the Government presents its financial information poses a number of challenges in this regard:

- the Main Estimates are prepared prior to the Budget and do not include items announced in the same year's Budget;
- departments do not clearly and consistently identify budget spending in the Main Estimates;
- votes in the Main Estimates are based on the type of expenditure, while the Budget describes the purpose of funding; and
- the Budget and the Main Estimates are prepared using different accounting bases and have differing scopes.

The largest element of the Government's fiscal plan is the second year of its infrastructure program. While the Government earmarked \$8.0 billion in new spending for infrastructure in 2017-18, the PBO is only able to identify approximately \$5.5 billion of additional investment in the Main Estimates 2017-18. Some of the funding may have been deferred, which would be consistent with the \$828 million in infrastructure funds the Government "reprofiled" in Supplementary Estimates (C) 2016-17.

1. Introduction

In order to spend money from the Consolidated Revenue Fund, the Government must receive authority from Parliament.

It receives this authority either through previously adopted legislation that provides ongoing authority, for example, for Old Age Security benefits and Fiscal Equalization payments to provinces, or through annually voted amounts, which expire at the end of the fiscal year. Voted amounts are approved by Parliament through an appropriation, or supply, bill.

The Main Estimates support Parliament's consideration of the interim supply bill, which authorizes funding for the first three months of the fiscal year, and the full supply bill, which is the amount laid out in the Main Estimates, less interim supply.

The Main Estimates include forecasts of spending that has been authorized by previously adopted legislation, that is, statutory authorities, for information purposes only.

In 2017-18, statutory authorities are approximately 60 percent of the total budgetary authorities outlined in the Main Estimates. The remaining 40 percent require parliamentary approval through appropriation bills.

1.1. Expenditure Plan and Main Estimates – Overview

The Government's Expenditure Plan and Main Estimates for 2017-18 outline \$257.9 billion in budgetary spending authorities, as well as an overall \$219 million reduction in the value of non-budgetary loans, investments and advances (Table 1-1). Of the budgetary total, \$102.1 billion relates to authorities to be voted by Parliament.

Table 1-1 The Government's expenditure plan

(\$ billions)	Budgetary	Non-Budgetary
Voted	102.1	0.03
Statutory	155.8	-0.25
Total	257.9	-0.22

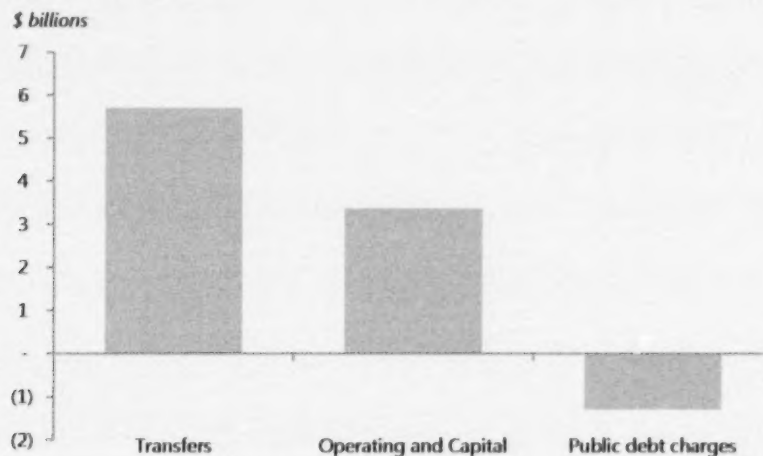
Source: Main Estimates 2017-18.

The total budgetary authorities of \$257.9 billion represents an increase of approximately \$7.8 billion (+3.1 percent) compared to the total budgetary authorities outlined in the Main Estimates 2016-17. When compared to Estimates to date in 2016-17, the increase is \$751 million (+0.3 percent).

The 2017-18 budgetary authorities will rise with anticipated funding requests in the Supplementary Estimates.

As shown in Figure 1-1, most of the \$7.8 billion increase in budgetary authorities is taking place in transfers, which are up by \$5.7 billion (+3.6 percent), with an increase of \$3.4 billion (+4.9 percent) for operating and capital expenditures. These increases are partially offset by a decline in public debt charges of \$1.3 billion (-5.7 percent)

Figure 1-1 Composition of changes in budgetary authorities (year-over-year)



Source: Treasury Board of Canada Secretariat, Main Estimates 2017-18.

Note: The figure compares Main Estimates 2017-18 to Main Estimates 2016-17.

Major transfers to persons, including elderly benefits and children's benefits are forecast to increase by \$4.7 billion (+5.2 percent) from the 2016-17 projection to \$95.9 billion. Major transfers to other levels of government, including equalization payments and the Canada Health Transfer, are forecast to increase by \$1.6 billion (+2.4 percent) to \$70.0 billion.

The federal organizations with the largest increase in their total budgetary authorities from the Main Estimates 2016-17 are Infrastructure Canada (+\$3.1 billion, +81.2 percent), Indigenous and Northern Affairs Canada (+\$2.6 billion, +34.0 percent), Industry Canada (\$1.3 billion, +99.8 percent), Veterans Affairs Canada (+\$1.1 billion, +29.3 percent), and Public Services and Procurement Canada (+\$824 million, +28.7 percent).

Significant decreases in budgetary authorities include Employment and Social Development Canada (-\$4.2 billion, -6.8 percent), Statistics Canada (-\$280 million, -37.3 percent), Natural Resources Canada (-\$253 million, -15.9 percent), Canadian Space Agency (-\$78.6 million, -18.2 percent), and National Research Council of Canada (-\$53.3 million, -5.1 percent).

The decrease in the value of non-budgetary authorities is due to Employment and Social Development Canada's reduced forecast for the value of its student and apprentice loans by \$621 million from the previous year's Main Estimates. At the same time, the department is forecasting an increase of \$462 million for its Canada Student Loans and Grants for Students and Apprentices Program, mostly due to an increase in Canada Student Grants.

2. Estimates Reform

The Government sets out its overall fiscal plan, including announcements of new and additional spending, in the Budget. Ensuring accountability for federal spending and monitoring the implementation of the fiscal plan involves following federal spending from announcement in the Budget, to parliamentary approval through the Estimates, and actual spending as reported in the Public Accounts.

However, the way the Government presents its financial information poses a number of challenges in this regard. The Government has committed to making improvements, laying out an [agenda for reform](#) in October 2016.

2.1. Alignment

As the Main Estimates are prepared prior to the Budget, spending announcements made in the budget are usually included later in supplementary estimates, or subsequent years' main estimates. Thus, the Main Estimates do not provide an overall picture of the Government's planned spending for the year.

The Government proposes to delay the Main Estimates until May 1, which, according to the Government, would improve alignment by allowing items announced in the Budget to be included in the Main Estimates. It would also replace the need for a spring supplementary estimates.

The lack of alignment between the Budget and the Main Estimates is evident in the Main Estimates 2017-18 of VIA Rail Canada and Marine Atlantic. VIA Rail Canada's appropriation is \$204 million less than its Estimates to date in 2016-17 (-48.1 percent), and Marine Atlantic's appropriation is \$68 million less (-47.7 percent). In both cases the reduction is due to the expiration of temporary funding announced in previous budgets and is not reflective of their financial needs for the year. The upcoming budget may announce additional funding for these Crown corporations.

Changing the timing of the Main Estimates requires modifications to the House of Commons Standing Orders. While the Government signalled in January 2016 its desire to implement the reform in 2017-18, it was unable to achieve consensus in time to do so.

Nonetheless, the PBO pointed out in its Supplementary Estimates (C) 2016-17 [note](#) that delaying the Main Estimates would not achieve full alignment with the Budget without additional administrative reforms.

Lastly, fully aligning the content of the Budget and Main Estimates would likely require aligning their planning processes as well. The parliamentary calendar has a fixed timeline for the consideration of supply, but the indefinite timing of budgets makes it difficult for the Government to coordinate its administrative activities.¹

2.2. Following the Dollar

Differences in their presentations make it difficult to follow federal spending from announcement in the Budget to inclusion in the Estimates.

The Budget announces new or additional spending with a general description of the purpose of the funding. The organization and program that will undertake the funding are often left out. The Estimates, on the other hand, are structured by organizational spending, with votes on the type of expenditure.

The labelling of budget items in Supplementary Estimates makes it easier to track spending. However, the presentation in the Main Estimates is not as consistent. For example, Indigenous and Northern Affairs Canada provides specific funding amounts tied to Budget 2016 in its Main Estimates 2017-18 highlights section, while Health Canada makes no reference to Budget 2016, nor does it provide specific funding details. The PBO's difficulty of tracking Budget 2016 commitments is noted below in the section on infrastructure spending.

One way to make it easier to link budget announcements to estimates allocations would be to adopt a program or purpose-based vote structure, as it would provide a clearer connection between the purpose of spending and its approval by Parliament. Since 2016-17, the Government implemented a pilot project whereby Transport Canada's transfer payments vote was divided into several program-based votes. The Government has not indicated whether or when it will expand this project to other organizations.

A further challenge is the Budget and the Public Accounts are prepared on an accrual accounting basis, while the Estimates are prepared on a modified cash basis.² As the Government has limited capital spending, this difference is not evident for most spending initiatives. In its agenda for reform, the Government indicated that it could provide accrual information on significant capital budgets and complex liabilities with the Main Estimates. It has not yet done so.

At an overall level, the Budget and Estimates have a different scope. For example, Employment Insurance is not included in the Estimates. In 2016-17, overall spending for the year projected in Budget 2016 was \$65.7 billion greater than the figure presented in the Main Estimates 2016-17. Beginning last year, the Government includes a reconciliation table in the

Supplementary Estimates (A). While the table helps explain the differences in scope, it provides limited detail on items not included in the Estimates.

The exclusion of some items from the Estimates can make it hard to track federal spending. For example, the Universal Child Care Benefit, which was a statutory spending program, was replaced by the Canada Child Benefit, which is a transfer made through the tax system. As a result, Employment and Social Development Canada's statutory spending is decreasing by \$4.2 billion from the previous year's Main Estimates, even though the Canada Child Benefit is more costly than its predecessor.

The Government has stated its intention to work with parliamentarians and other stakeholders to enhance the clarity, coherence and accountability of government spending. Parliamentarians have indicated their desire for further improvements. As observed by the Standing Senate Committee on National Finance, "For clarity and transparency's sake, the federal government needs to present to Parliament a single budget for the whole year."

3. Major Expenditures

3.1. Infrastructure Spending

The largest element of the Government's fiscal plan is the second year of its infrastructure program. Budget 2016 earmarked \$7.3 billion in new spending for infrastructure in 2017-18.³ The Fall Economic Statement revised this figure upward by a further \$700 million to \$8.0 billion.

In its [press release](#), the Government stated that the Main Estimates 2017-18 include over \$7 billion in new funding for infrastructure. However, it is challenging to reconcile this statement with the figures presented in the document.

As shown in Table 3-1, the PBO is able to identify approximately \$5.5 billion of the announced \$8.0 billion in additional investment.

Table 3-1 Planned Federal Infrastructure Spending Included in the Main Estimates 2017-18⁴

	Government Announcement	Main Estimates 2017-18	Difference
	<i>\$ millions</i>		
Federal Infrastructure	1,937	240	-1,697
Public Transit and Other Municipal Infrastructure	3,705	3,142	-563
Post-Secondary Education Infrastructure	1,250	1,000	-250
Indigenous	837	848	+11
Cultural, Recreation and Other Infrastructure	288	251	-37
Total	8,017	5,481	-2,536

Sources: Finance Canada, *Budget 2016*; Treasury Board of Canada Secretariat, *Main Estimates 2017-18*.

Note: The additional \$700 million of spending announced in the Fall Economic Statement was not identified for a specific program. The PBO assumes that this funding is included as part of Public Transit and Other Municipal Infrastructure.

The difference of \$2.5 billion could be explained by various factors. The Government may plan to request additional funds for infrastructure in Supplementary Estimates, but did not highlight this fact in its expenditure plan for the year.

Alternatively, the Government could have decided to defer its intended infrastructure spending beyond 2017-18. This would be consistent with the \$828 million in infrastructure funds it "reprofiled" in Supplementary Estimates (C) 2016-17, which may be spent in the unspecified future.

A further alternative is that the infrastructure spending is included in the Main Estimates, but the PBO has been unable to identify it. If correct, this would demonstrate the significant challenge of monitoring the implementation of the government's fiscal plan.

The infrastructure spending outlined in the Main Estimates is lower than the PBO assumed in its Fall Economic and Fiscal Outlook and Economic and Fiscal Monitor. The Government may subsequently decide to seek Parliament's permission to spend reprofiled infrastructure funds in current or future years. At the same time, the PBO currently expects that approximately half of planned federal investments in infrastructure will actually occur as planned in 2016-17. The remainder will occur over subsequent fiscal years.

Parliamentarians may wish to ask federal officials for a summary of federal infrastructure spending expected to take place in 2017-18, and for officials' current expectations of the economic impact due to infrastructure spending, compared to the numbers presented in Budget 2016.

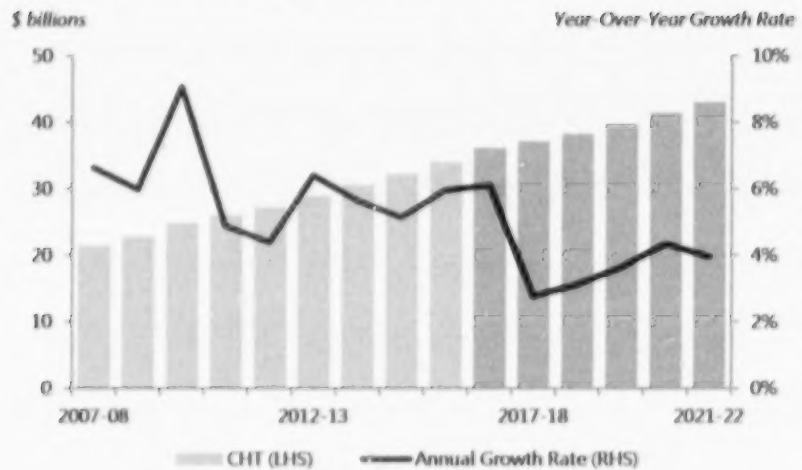
3.2. Federal Spending on Health Care and Seniors

Estimated spending on programs with ongoing, or "statutory," authority are set to rise by \$1.8 billion (+1.2 percent) in 2017-18 compared to total estimated spending in 2016-17. As in previous years, there are two programs primarily responsible for the increase: the Canada Health Transfer (CHT) and Old Age Security (OAS), which represent one of every four dollars of federal program spending.

The CHT is the single largest federal transfer to provinces and territories, which supports the Canadian public healthcare system. Beginning in 2017-18, the CHT automatically grows each year by the three-year moving average of nominal growth in GDP, or by at least 3 percent.

In 2017-18, the Government expects CHT payments to grow by \$1.1 billion (+3.0 percent) and exceed \$37.1 billion (Figure 3-1). As a consequence of the aforementioned policy changes, the CHT growth rate is projected to be lower over the medium-term, compared to the average growth rate over the previous decade.

Figure 3-1 Canada Health Transfer Growth Rate



Sources: Receiver General of Canada, Public Accounts of Canada; Treasury Board of Canada Secretariat, Main Estimates 2017-18; Parliamentary Budget Officer, Fall 2016 Economic and Fiscal Outlook.

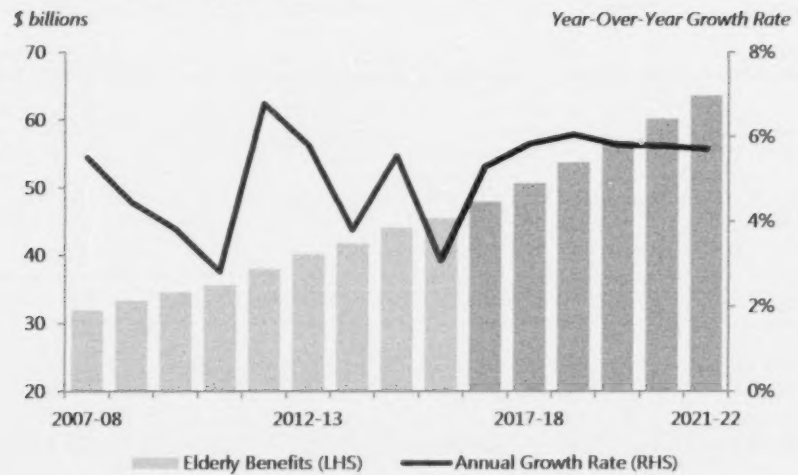
Notes: Figures prior to 2016-17 are actuals. Figures for 2016-17 and 2017-18 are estimates. Figures for 2017-18 and later are PBO projections.

Old Age Security (OAS) is the single largest federal program. OAS provides a monthly pension payment to most seniors over the age of 65. The program is funded from general government revenues, meaning that beneficiaries do not contribute to the program in order to receive a benefit.

Beyond the standard monthly pension, the OAS program also provides for other complementary payments for low-income pensioners, such as the Guaranteed Income Supplement.

The Main Estimates indicate that federal spending on Elderly Benefits will rise by \$2.8 billion to \$51.2 billion in 2017-18 (+5.8 percent). The growth rate for Elderly Benefits is projected to exceed that of the overall economy owing to an ageing Canadian population, which will result in a greater proportion of the population being eligible for benefits.

Figure 3-2 Elderly Benefits Growth Rate



Sources: Finance Canada, Fiscal Reference Tables; Treasury Board of Canada Secretariat, Main Estimates 2017-18; Parliamentary Budget Officer, Fall 2016 Economic and Fiscal Outlook.

Note: Figures prior to 2016-17 are actuals. Figures for 2016-17 and 2017-18 are estimates. Figures for 2017-18 and later are PBO projections.

Notes

1. A further discussion about budget timing can be found in Michael Wilson, *The Canadian Budgetary Process – Proposals for Improvement*, Ottawa, May 1985.
2. Under cash accounting, revenues and expenditures are recorded when the cash is received or is spent, in a manner similar to personal bank accounts. Under accrual accounting, revenues and expenses are recorded in the period to which they relate.
3. Finance Canada. Budget 2016; Table A.2.4.
<http://www.budget.gc.ca/2016/docs/plan/anx2-en.html#Toc446106884>.
4. The figures from Budget 2016 are taken from Table A.2.4. Figures from the Main Estimates 2017-18 are calculated as follows: *Federal Infrastructure* is the net change in total planned spending on the following standard objects: *purchased repair and maintenance, utilities, materials and supplies, acquisition of buildings, plans and works, and acquisition of land*; *Public Transit and Other Municipal Infrastructure* is Infrastructure Canada's total net change in spending from the previous year's Main Estimates; *Post-Secondary Education* is Innovation, Science and Economic Development's total planned spending on the Post-Secondary Institutions Strategic Investment Fund contribution; *Indigenous Affairs* is new spending on Indigenous and Northern Affairs Canada's *water and wastewater systems*, the *Education Infrastructure Fund*, and other *public infrastructure on reserve*; *Cultural, recreation and other spending* is a combination of the Canada 150 Community Infrastructure Program and the Canada Cultural Spaces Fund.